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C O N F I D E N T I A L SECTION 01 OF 02 FREETOWN 000646

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DEPARTMENT FOR AF/W, AF/EPS, AND EB
LONDON FOR POL - AFRICA WATCHER R. BELL
PARIS FOR POL - AFRICA WATCHER
BRUSSELS FOR POL - AFRICA WATCHER

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SUBJECT: IMF REP ON SIERRA LEONE COMPLETION POINT: MAYBE BY
END 2006

REF: FREETOWN 502

Classified By: DCM JAMES A. STEWART FOR REASONS 1.4 B/D.

Summary

1. (C) The IMF Representative for Guinea and Sierra Leone told DCM on August 4 that Sierra Leone has hard work to do on increasing government revenues and controlling expenditures. With substantial effort, the HIPC completion point (put off several times) could be reached by late 2006. Collecting fair taxes from politically connected elites and controlling government expenditures, especially in the civil service wage bill a year before elections, are distinct challenges. The shortage of competent financial people, especially at the mid-level, represents a serious capacity constraint. We explained the Embassy's concerns over the taxation of diplomatic shipments which the IMF rep took on board. By his own admission he visits Sierra Leone too seldom and need to give the GoSL more frequent financial check ups and keep the pressure on for improved performance. End Summary.

2. (U) DCM met with IMF Guinea and Sierra Leone representative (resident in Guinea) Dennis Jones on August 4 to discuss Sierra Leone's HIPC completion point and general economic progress. (DCM was on private visit to Conakry.)

Increase Revenues -- Control Expenditures

3. (C) Jones explained that Sierra Leone is back on track with the 2006-2008 Poverty Reduction and Growth Facility (PRGF) after making little head way and being judged non-performing in 2005. After Sierra Leone's successful IMF review in May/June, the GoSL was able to draw a tranche of \$21 million. As is typical under a PRGF, the Government agreed to take aggressive measures to increase its own revenue generation and to strictly discipline expenditures. With decent continued performance, Sierra Leone will reach its HIPC completion point in late 2006, Jones explained. (The decision point has been delayed several times.) He went on to say that it is even more critical that the GoSL control its finances because of lags in debt forgiveness: once the completion point parameters have been met, debt relief will come in stages -- in three months the World Bank, in six months the African Development Bank, and in one year the IMF. He emphasized that the Government's debt service savings under HIPC must go directly to a prescribed set of poverty reduction measures.

4. (C) On the expenditures side, Jones noted particular IMF concerns over the government wage bill. While pointing to

the May/June IMF report for details, he related that the civil service is too large and too expensive for a poor country. Jones said that the GoSL says that it has hired thousands of new teachers for the tens of thousands of new primary school pupils, but government records are not good and the statistical picture is unclear. By itself the expansion of schooling is a positive development, Jones said, but also underscored that expenditures must be tied tightly to development goals as expressed in the Poverty Reduction Strategy Plan agreed to a year ago.

Capacity Constraints

15. (C) More broadly, Jones lamented the GoSL's generally feeble institutional capacity and scant ability to generate accurate and timely reports. He noted that many of the top ministerial and central bank people are competent, but their work is severely hampered by the paucity of mid-level professionals. (Comment: In a separate conversation the head of the World Bank office in Freetown told us that the Finance Minister "shoots from the hip" and has no demonstrated ability to analyze choices and their ramifications. Meanwhile, the very capable Finance Ministry finance director who is integral to the Ministry's functioning will soon leave for an IMF job. End Comment.)

Taxes on Diplomatic Shipments

16. (C) The DCM told Jones of the Mission's difficulty with the GoSL's levying of taxes that are not allowed under the Vienna Convention or the 1961 US-SL bilateral assistance treaty (Reftel and Septel). He detailed the 1.25% of CIF value administrative fee on duty free shipments and other taxes and fees as well as the Mission's diplomatic efforts to

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uphold signed agreements (contracts) and move GOSL policy and practice. Jones seemed genuinely ignorant of the taxes and said only that the IMF is pushing the GoSL to increase its own revenue generation, but that it does not prescribe what tax measures to put into place. (Comment: This jibes with Finance Minister John Benjamin's reftel explanation to the Ambassador that the 1.25% administration fee on duty free shipments and other taxes are the GOSL's ideas. That said, we often hear the assertion from government officials that the IMF and World Bank are forcing the GOSL into these revenue measures. Consequently, in order to show raised revenue collection, the GoSL is taxing the very donors from which it is seeking debt relief. End Comment)

Comment

17. (C) The GoSL has shown some success versus its difficult financial challenges but it undoubtedly could do much more. The inequity of tax collections is notorious as it is widely reported that due to political connections large property owners (local and foreign) and well heeled merchants escape paying their fair share. A further challenge on the revenue side is the vast scale of informal activity which is difficult to tax efficiently. On the expenditures side, no one realistically expects the Government to do anything about controlling its wage bill with national elections only a year off and with the widespread agreement that civil servants do not receive a living wage. By his own admission, IMF rep Jones does not visit Sierra Leone often enough. He must come much more often so as to deliver the occasional pat on the back but also to look over the shoulder of the financial authorities and remind them constantly where further progress is required. End Comment.

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